From: Penny

Developers wrap up major deal

Homes, hotels seen in plan for 26 acres

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Two real estate veterans have completed the acquisition of a premier development site east of the Illinois Center office complex, setting the stage for a $2.5 billion, mixed-use development that could take more than a decade to complete.

Since agreeing to buy the 26-acre site in 1998, architect James R. Loewenberg and attorney Joel M. Carlins have steadily guided the Lakeshore East project through City Hall while grappling with even larger challenges to finance the land purchase.

As many as 17 midrise and high-rise structures could be built on the site, which is roughly bounded by Lake Shore Drive, Wacker Drive, Columbus Drive and Randolph Street.

"We are not going to find a better piece of land," said Carlins, president of Chicago-based Magellan Development Group Ltd. Loewenberg is president of Chicago-based Near North Properties Inc., which is the partner with Magellan on the project.

Carlins confirmed that the transaction closed Thursday, but would not comment on the price, which sources said was about $81 million, or nearly $74 per square foot. That price includes closing costs and about $4.4 million to buy out the operator of a nine-hole golf course on the site.

The land was owned by a joint venture that included Metropolitan Structures, the developer of Illinois Center. The other partner was Minneapolis-based PepsiAmericas Inc., the company that resulted from the buyout of PepsiAmericas by Whitman Corp., formerly of Rolling Meadows, in 2000.

Now the hard work begins: selling off individual parcels to other developers while arranging construction financing of those sites that Carlins and Loewenberg want to develop themselves.

And even with a project that could last 15 years, time is now the developers' enemy, real estate experts say.

"The velocity of sales and development will determine whether or not this will be a smart bet over the long haul," said Quintin E. Primo III, co-chairman of Chicago-based real estate investment firm Capri Capital. "The deal's not aggressive on paper, but it is a very strong bet on Chicago."

Eventually, the project could total 9.7 million square feet of space, more than two and a half times the size of the Merchandise Mart. Although developers say they may build only three-quarters of what is allowed under current zoning, the scope of the project is breathtaking. Current plans include:

Five apartment towers with 2,300 units.

As many as 10 condominium towers with 2,350 units.

Hotels with up to 2,000 rooms.

About one-third of the site will be sold to the city, leaving the developers with about 15 acres of land for construction.

At the center of the development will be a six-acre park that will include the site of a new elementary school. The park will be lined with about 170 townhomes.

"If we create the park properly, if we do things right, it's going to be a crown jewel," Carlins said.

The developers will contribute about $11 million to the $78.3 million public improvement project, which will largely be financed by the sale of bonds totaling $60 million.

Chicago-based William Blair & Co. LLC will handle the bond sale, expected to take place in September.

Construction of the park and other public improvements, such as streets and sewers, is expected to begin this fall.

To finance the acquisition, the developers obtained a loan from Chicago-based LaSalle Bank. Carlins would not comment on the amount of the loan or the other source of financing,

While the developers themselves have made a large investment in the project--sources say more than $8 million--they struggled to find financing to fill the gap between their own stake and the amount that the bank was willing to lend.

As a part of the transaction, the sellers--PepsiAmericas and Metropolitan Structures--made a significant second mortgage to the developers.

The sellers were advised by Bruce Miller, managing director with Chicago-based Jones Lang LaSalle Inc., who would not comment on the financing.

At Thursday's closing, the developers sold off a site on Columbus Drive to Denver-based apartment company Archstone-Smith Operating Trust, which plans an apartment tower.

Carlins would not confirm the sale to Archstone-Smith, which sources said was for at least $10 million.

The developers' land cost will be further reduced by about $25.8 million as a result of the land sale to the city.

"People can look at this and say, `A 26-acre site right on the lake, this should be easy,'" Miller said. "But this was an extremely difficult deal."